

## Message Text

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ORIGIN NEA-12

INFO OCT-01 ISO-00 EB-11 IO-14 L-03 ABF-01 FS-01 IGA-02

INR-10 SSO-00 INRE-00 SS-20 OMB-01 RSC-01 /077 R

DRAFTED BY NEA/INS:DWBORN/L/NEA:ATBROWN:CF

APPROVED BY NEA:LBLAINGEN

EB/IFD/ODF - M.CASSE

NEA/INS - D.KUX (SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

C O N F I D E N T I A L STATE 240930

STADIS////////////////////////////////////

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: RUPEES: MOV - ANOTHER LAST TIME

REF: (A) NEW DELHI 14409

(B) STATE 236931

1. WE SEE YOUR DIFFICULTY WITH SPECIFYING THE SOURCE OF THE RUPEES TO BE MAINTAINED IN VALUE, DERIVING FROM THE FACT THAT THE AMOUNT OF THE ACTUAL PREPAYMENT IS NOT SUFFICIENT.

2. HOWEVER, YOUR FORMULATION POSES SERIOUS PROBLEM HERE, IN THAT IT MAKES MORE EXPLICIT THAN HERETOFORE POSSIBILITY THAT WE COULD END TEN-YEAR PERIOD WITH LESS RUPEES THAN WE HAD AT BEGINNING. IT WAS TO AVOID PRECISELY THIS POSSIBILITY THAT WE SOUGHT DOLLAR-DENOMINATED ACCOUNT WITH BALANCE REPORTED TO US IN DOLLARS. LANGUAGE MUST PERMIT US AVOID APPEARANCE OF PAYING RUPEES BACK. BY DENOMINATING THE PROTECTED PORTION IN DOLLARS, WE  
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SUCCESSFULLY AVOID THIS EVEN THOUGH THE EXCHANGE RATE

MIGHT MOVE AGAINST US. ACCORDINGLY WE HAD WELCOMED SOMEWHAT FUDGED DESCRIPTION OF MECHANISM ACCEPTED BY ALL (PER NEW DELHI 14252). YOUR NEW FORMULATION IN REF (A) MAKES THE MECHANISM RATHER EXPLICIT: ONCE WE HAVE GOT RUPEES INTO THE RUPEE ACCOUNT, WE THEN MUST TRANSFER

THEM OUT TO THE DOLLAR-DENOMINATED ACCOUNT, THEREAFTER GETTING THEM BACK IN PIECES WHICH PLAINLY MIGHT NOT TOTAL ORIGINAL AMOUNT. FURTHERMORE, WE HAVE PRACTICAL PROBLEM. TREASURY ACCEPTED THAT LANGUAGE AND SECSTATE APPROVED IT. WE LOATHE REOPEN MATTER AND JUDGE TREAS WOULD HAVE GREATEST DIFFICULTY GOING ADDITIONAL MILE. 3. THE FOLLOWING CHANGES WOULD SOLVE THE PROBLEM WITH MINIMUM DIVERGENCE FROM APPROVED TEXT:

A. AMEND PARA 2 OF PART II TO READ IN ITS ENTIRETY AS FOLLOWS:

"2. THE GOVERNMENT OF INDIA SHALL MAKE THE FOREGOING PREPAYMENT OF PRINCIPAL AND PAYMENT OF ACCRUED INTEREST BY DEPOSITING ON THE DATE OF THIS AGREEMENT, RS. INTO A NEW ACCOUNT IN FAVOR OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA WITHIN THE PUBLIC ACCOUNT OF THE GOVERNMENT OF INDIA, SUCH ACCOUNT TO BEAR NO INTEREST (THE "RUPEE ACCOUNT")."

B. AMEND PARA 3 TO READ AS FOLLOWS:

"3(A) ON THE DATE OF THIS AGREEMENT, THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF INDIA SHALL CAUSE ALL THE SECURITIES HELD WITH THE RESERVE BANK OF INDIA, AS REFERRED TO IN THE THIRD PREAMBULAR CLAUSE OF THIS PART II, TO BE EXCHANGED FOR RUPEES.

"(B) OF THE RUPEES OBTAINED PURSUANT TO PARAGRAPH 3(A) IMMEDIATELY ABOVE, RS. SHALL BE DEPOSITED INTO THE RUPEE ACCOUNT.

"(C) THE REMAINDER OF SUCH RUPEES,(EQUAL TO CONFIDENTIAL

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RS. ), SHALL BE DEPOSITED (AND THEN PICK UP WITH "INTO A NEW ACCOUNT..." IN PARA 2(B) OF PART II OF THE AGREEMENT AS TRANSMITTED NEW DELHI 14219, WITH CHANGES IN STATE 239597, PARA 13.)

"(D) (AS PER PARA 2(C) OF AGREEMENT TRANSMITTED NEW DELHI 14219, CHANGING THE REFERENCE TO PRECEDING PARA FROM 2(B) TO 3(C), AND SUBJECT TO COMMENTS IN

PARA 5, BELOW.)"

4. WE WOULD WELCOME GOI AGREEMENT TO DELETE PHRASE SPECIFYING RUPEE AMOUNT SET IN PARENTHESES IN PARAGRAPH 3(C) PROVIDED ABOVE. FYI: THIS WOULD FURTHER DIVORCE DOLS. 500 MILLION EQUIVALENT FROM SPECIFIC RUPEE AMOUNT. END FYI.

5. RE EXCHANGE RATE FORMULA IN MOV PROVISION PROVIDED REF (A). WE THINK REFERENCE TO SMALLEST NUMBER OF RUPEES FOR EACH US DOLLAR IS OBJECTIONABLE FROM CONGRESSIONAL POINT OF VIEW. HOWEVER, IF THAT LANGUAGE MUST BE RETAINED, PARA 3 OF REF (B) DESCRIBES CONFLICT BETWEEN HAVING PROVISIO CALLING FOR EXCHANGE RATE GIVING SMALLEST NUMBER OF RUPEES PER DOLLAR AND REPEAT AND MFN. SAME PROBLEM, ALTHOUGH TO LESSER DEGREE, COULD RESULT IN CONVERSION EXCHANGE RATE FORMULA (PARA 6(A) OF PART I) USING DOLLAR SELLING RATES. THEREFORE SUGGEST MFN BE MADE GENERALLY AND SEPARATELY APPLICABLE TO ENTIRE EXCHANGE RATE FORMULA IN BOTH MOV AND CONVERSION PARAGRAPHS, BUT AT LEAST IN THE CASE OF MOV, AS FOLLOWS:

(A) STRIKE LAST PHRASE BEGINNING "AND WHICH IS NOT LESS FAVORABLE...".

(B) INSERT IN PLACE OF THAT PHRASE: "; AND FURTHER PROVIDED, THAT IN ANY CASE THE APPLICABLE EXCHANGE RATE SHALL NOT BE LESS FAVORABLE TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA THAN RATES OBTAINABLE BY ANY OTHER NATION ON SUCH ANNIVERSARY (CONVERSION) DATE." RUSH

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, RUPEE, EXCESS FOREIGN EXCHANGE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 08 DEC 1973  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** collinp0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Office:** ORIGIN NEA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** STADIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** STADIS  
**Reference:** (A) NEW DELHI 14409  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** collinp0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 19 DEC 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <19-Dec-2001 by shawdg>; APPROVED <07 MAR 2002 by collinp0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RUPEES: MOV - ANOTHER LAST TIME  
**TAGS:** EFIN, IN, US  
**To:** NEW DELHI  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005